



**SUBSHANTI  
WEALTH**  
Bringing sense to your world of investments



# INFORMED INVESTOR GUIDE

THE ONLY GUIDE YOU NEED TO  
AFFORD ANYTHING





# MESSAGE FROM OUR CEO

Very often investors have been sold products which have given suboptimal results. In my professional career I closely observed that an investor while buying a financial product only has a ‘monologue’ with the seller, which allows him to sell whatever he wants. Thus, in our attempt to convert this “monologue” into a “dialogue”, SubhShanti Wealth (previously SubhShanti Advisory) was founded in March 2011, to empower the investors with requisite skills to not only ask the relevant questions – before buying a financial product but also to educate them to focus on financial well-being rather than only on Financial Products.

**Happy Investing**

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# What is Investing?



## What is Investing?

Investing is when you buy something in hopes that it'll appreciate (aka increase in value) or generate income. People can invest in many ways, from buying gold or real estate to putting money toward building businesses and furthering their education.

In the financial world, investing most often refers to buying an asset, like individual stocks and bonds, mutual funds, or exchange-traded funds (ETFs), that you expect will help you grow your money over time. Most people invest for big long-term financial goals, like paying for college, buying a house, or saving for retirement.

## Why investing is important?

Investing is essential for building wealth over time. While money sits idle, its buying power weakens due to inflation. By investing, your money has the potential to grow, outpacing inflation and securing your future financial goals. Think of it as growing your seed money into a fruitful tree – it allows you to achieve your long-term plans and maintain your desired lifestyle.

# Importance of Investing

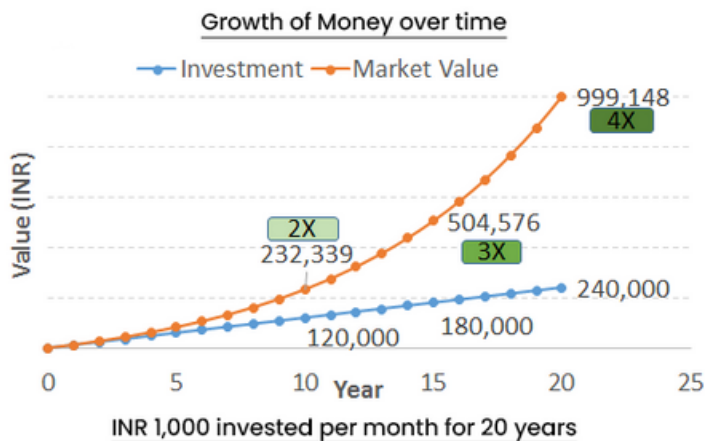
## How does investing work?

Investors aim to generate a return on their investments, most commonly through appreciation and income.

- **Appreciation** is when something grows in value. Think: Buy low and sell high.
- **Income** is when an investment puts money in your pocket without you having to sell it.

This could be through a dividend, an interest payment, or even profits from real estate or a business.

## Why starting early is important?



# Saving **VS** Investing



- **Saving** — putting money aside gradually, typically into a bank account. People generally save for a particular goal, like paying for a car, a down payment on a house, or any emergencies that might come up. Saving can also mean putting your money into products such as a bank time account (FD).
- **Investing** — using some of your money with the aim of helping to make it grow by buying assets that might increase in value, such as stocks, property or shares in a mutual fund.

## Scenario 1: Saving

Saving Rs.10,000 each month for a year and then at the end of the year making a 5 year FD giving returns 8% per annum. Total investment duration is  $(1+5) = 6$  yrs.

### Tax Implication:

1. Savings account returns after taxes: 2.8% annually
2. FDs post tax returns for someone in 30% tax bracket: 5.6% per annum

Amt invested: Rs.6 lacs

Final corpus post tax is Rs.7.6 lacs

## Scenario 2: Investing

Investing Rs. 10,000 regularly into ELSS fund which may give returns of about 12% for 5 yrs and keep it invested for 1 more year. Total investment duration is  $(5+1) = 6$  yrs.

### Tax Implication:

- Since investment is done in equity for period  $>1$  year, Long-Term Capital Gain (LTCG) Tax of 10% is applicable on gains exceeding Rs.1 Lac without Indexation benefit.

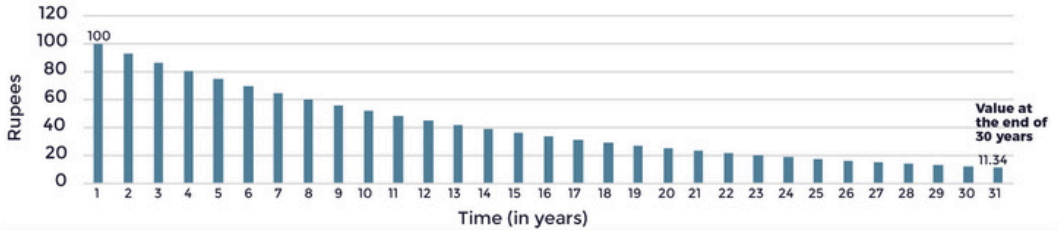
Amt invested: Rs.6 lacs

Final corpus post tax is Rs.9.13 lacs

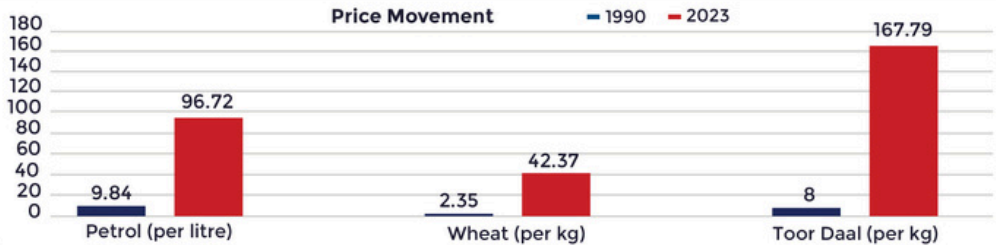
# UNDERSTANDING INFLATION



## Inflation erodes purchasing power of money



**Real Value of ₹100 will become ₹11.34 in 30 years at inflation of 7% p.a.**



Source: Petrol costs are as on March 20, 1990 in Delhi (Source: [www.in.reuters.com](http://www.in.reuters.com)), and on September 30, 2023 in Delhi (Source: Ministry of Petroleum and Natural Gas). The price of wheat grains is as sold as wholesale in Mumbai in April, 1990 (Source: Ministry of Agriculture) and on September 30, 2023 (Source: Ministry of Consumer Affairs, Food & Public Distribution). The prices of toor daal are as sold as retail in Mumbai in April 1990 (Source: Ministry of Agriculture), and on September 30, 2023 (Source: Ministry of Consumer Affairs, Food & Public Distribution).



### Inflation reduces your purchasing power.

**Hence, today's money will not buy you the same things tomorrow.**

E.g. 1 Litre of petrol which used to cost ₹9.84 in 1990, costs ₹96.72 (2023)

Over the last 4 decades **CPI Inflation** in India has averaged at ~7% per year.\*

A few specific examples above show how small increases over time end up increasing costs dramatically.

**Investing in equities can help you beat inflation better than other asset classes and provides positive real returns over the long term. #**



The lesson is clear. Inflation devalues us all. – Margaret Thatcher



### Questions on every investor's mind -

- ◆ How does inflation affect your day-to-day life?

CPI - Consumer Price Index

\*Source: RBI; <https://caccp.dacnet.nic.in/ViewReports.aspx?Input=2&PageId=63&KeyId=330>

# How big an impact can power of compounding have?

If you want to walk towards the moon, and start with 1 step on the first day and double the steps every day. How long do you think it will take to reach the moon? 2 years? 20 years? Let's find out!

Within 31 days, you will cover over 6.5 lakh km. and cross the moon.  
Yes, it will just take 31 days.

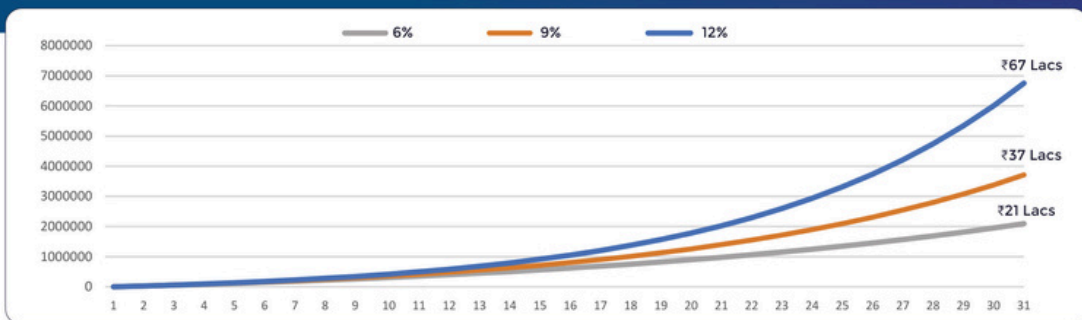
But what if you delay by 15 days? You will cover only 10 km.

That's the Power of Compounding.



## POWER OF COMPOUNDING – can make a huge difference to your wealth

The graph depicts how much an amount of ₹25,000 would grow to if **invested each year**, at **various rates of return across time**.



Assumptions: Asset Class 1 returns: 6%; Asset Class 2 returns: 9%; Asset Class 3 returns: 12%

The difference in the rate of returns between Asset class 3 and 2 is only 3%. However, **when invested over the long term, the difference in terms of value is huge.**

E.g., at the end of 30 years the amount of money accumulated from Asset Class 2 is just **₹37 Lakhs** while that of Asset Class 3 is ~ **₹67 lakhs**.

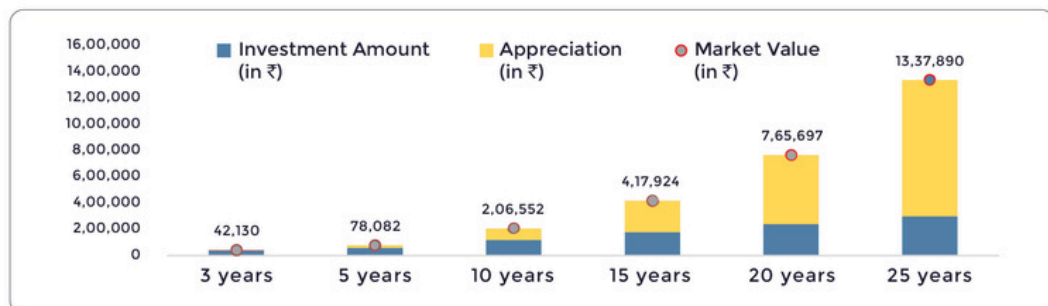
Albert Einstein famously said, "Compound interest is the eighth wonder of the world."

# The Power of Compounding



Let's see how much money can be accumulated through an SIP investment of ₹1000/month.

Tenure	Investment Amount (in ₹)	Appreciation (in ₹)	Market Value (in ₹)
3 years	36,000	6,130	42,130
5 years	60,000	18,082	78,082
10 years	1,20,000	86,552	2,06,552
15 years	1,80,000	2,37,924	4,17,924
20 years	2,40,000	5,25,697	7,65,697
25 years	3,00,000	10,37,890	13,37,890



Assuming an SIP amount of ₹1000 growing at 10% CAGR. This is just an illustration with assumed rates to explain the power of compounding. The same should not be construed as future returns that the investors will receive.

It is evident from the graph that as the number of years increase, the money compounds at a much higher rate.

Even though the original investment is very low, the capital appreciation is much higher.

This is the **Power of Compounding**.



If you understand Compound Interest, You basically understand the universe.

- Robert Breault



# Decoding Returns



## Absolute Returns

The absolute return refers to the investment growth achieved in terms of percentage irrespective of the investment tenure. The growth is expressed in absolute terms and not in relative or comparative terms.

**For Example,** You invested a sum of Rs 200000 in a mutual fund that grew to 2.5 lakhs in 4 years. The absolute return here will be 25%  $((50000/200000)*100)$ . Even if the mutual fund delivers this return of 50000 in 3 years or 5 years, the absolute return will remain 25%

## Annualized /CAGR Returns

Annualized return refers to the return received by the investor annually. Annualized return or CAGR(Compounded Annual Growth Rate) also considers the effect of the compounded interest rate.

**The annualized return can be calculated using the formula:**

$$\text{CAGR} = ((\text{Current value}/\text{Purchase value}) ^ {1/\text{number of years}}) - 1] * 100$$

For Example, If the purchase NAV value of your mutual fund was Rs 10 and the current NAV value after 2 years is 15, the CAGR value will be computed as below:

$$\text{CAGR} = [((15/10)^{(1/2)})-1] * 100 = 22.4\%$$

# XIRR

XIRR stands for Extended Internal Rate of Return is a method used to calculate returns on investments where there are multiple transactions happening at different times.

**Suppose you invest SIPs of ₹ 4000, ₹ 9000, ₹ 5000, ₹ 4000 and ₹ 6500 in 5 years and receive ₹ 53,000 at the end of 5 years then your return on investment is 22%**

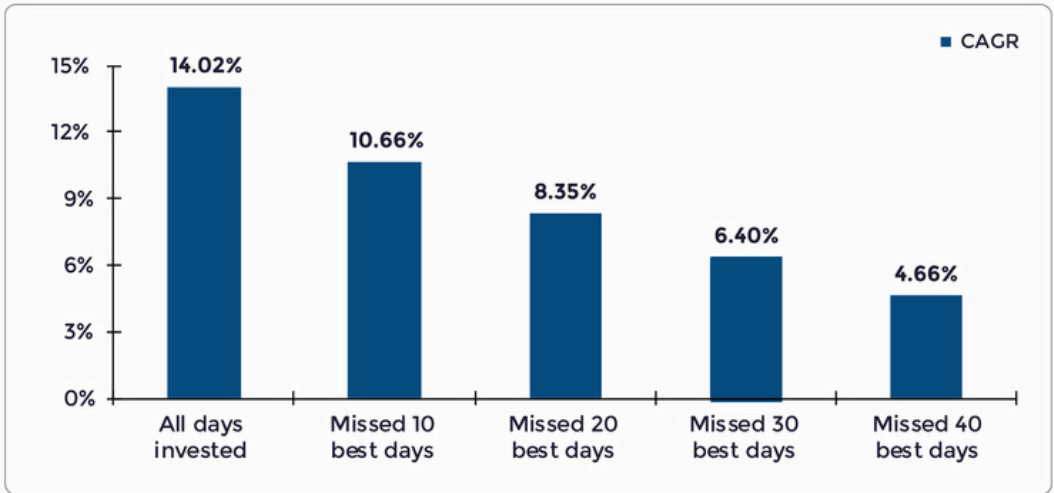
## Rolling Returns

Rolling returns are typically applied over longer time periods (three, five, ten or more years), and are useful in comparing the performance of different investments, for example mutual funds or ETFs.

The rolling returns formula is quite simple; add the returns from each calendar year during the desired period (3 years, 5 years, etc) and divide the sum by the number of years.

**For example, if the ABC Fund had returned 6% from March 1, 2021 to February 28, 2022, the fund had a one-year rolling return of 6%. But let's say the previous two years had annual returns of 2% and 13%. Using the formula above, the three-year rolling return is 7% per annum ( $6+2+13/3 = 7$ ) Therefore, investors earned an average 7% return on their investment in any of these years, including compounding and re-invested income.**

# Difficulty In Timing The Market



Daily returns from January 1, 1990 to September 30, 2023.

Source: Source: Internal calculations based on data procured from [www.bseindia.com](http://www.bseindia.com)

The above chart shows that if you had stayed fully invested in stocks (as measured by the S&P BSE Sensex) from **January 1, 1990 to September 30, 2023**, you would have earned compounded annual returns of **14.02%**.

However, if you had tried to time the ups and downs of the market, you would have risked missing out on days that registered some of the bigger gains, and the CAGR would have dropped drastically: **10.20% if you missed 10 best days, 8.36% if you missed 20 best days, 6.32% if you missed 30 best days and 4.50% if you missed 40 best days during this period.**



"It's time, not timing, that makes money in the market." Unknown



# Riding Through volatility

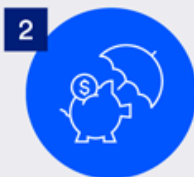
## What is Market Volatility

Market volatility refers to the rapid and unpredictable changes in the prices of financial assets, driven by factors like economic data, geopolitical events, and investor sentiment. To ride market volatility, investors should focus on diversifying their portfolios across different asset classes, maintaining a long-term perspective, and avoiding knee-jerk reactions to short-term fluctuations. Regularly reviewing and rebalancing investments can help manage risks and capture opportunities during volatile periods.

## 5 things to do during market volatility



**1**  
Establish or revisit your financial plan—and stick to it



**2**  
Bolster your emergency fund



**3**  
Reassess your risk tolerance level



**4**  
Make sure your portfolio is properly diversified



**5**  
Seek advice from your financial professional

# Bear vs Bull Market



- **Bull Market:** A period during which stock prices are rising or are expected to rise, typically characterized by investor optimism, confidence, and strong economic indicators.
- **Bear Market:** A period during which stock prices are falling or are expected to fall, usually marked by investor pessimism, declining economic indicators, and overall market uncertainty.

## Comparative Analysis Between Bull and Bear Market

### Aspect

### Bull Market

### Bear Market

Aspect	Bull Market	Bear Market
Market Sentiment	Optimistic and Positive	Pessimistic and Negative
Investor Behavior	Investors are confident and eager to buy	Investors are cautious and may sell or hold positions
Price Trend	Rising or stable prices	Falling prices
Economic Conditions	Strong economic growth	Economic slowdown or recession
Earnings	Corporate earnings typically grow	Earnings may decline or stagnate
Investor Attitude	Greed and FOMO (Fear of Missing Out)	Fear and risk aversion
Trading Volume	Usually high trading volume	Trading volume may decrease
Market Participation	Broader participation from retail and institutional investors	Reduced participation, cautious approach by investors
Government Response	Monetary policy may be tightening	Monetary policy may be easing or accommodative
Investment Strategies	Buy-and-hold may work well	Active management and hedging strategies may be favored
Popular Assets	Stocks, growth sectors	Bonds, defensive stocks, safe-haven assets

# Setting Financial Goals



Setting financial goals is like making a roadmap for your money. It helps you figure out what you want to achieve with your finances, like saving for a vacation or paying off debt. This way, you can track your progress and make sure your spending is on track for your dreams.

## SMART Framework

A critical first step in managing your finances is to be able to setup SMART financial objectives. Your goals have to be S (specific), M (measurable, motivated), R (realistic, resource-based), and T (time-bound, can be monitored). Many people make the mistake of setting general goals which, more often than not, will not materialize.

Objectives	Goals	Incorrect Approach	Right Approach
Specific	You need to know exactly what you want and when	I need money to pay my college fees in a year's time	I will save the money of Rs. 50,000 to pay my fees at college
Measurable	Your goal should be measurable so that you know when you can achieve it	I will pay off my debts to my friends	In the next six months, I will return Rs 3000 to my two friends for lending me their money.
Attainable	Your goals should be reasonable i.e. within your reach	I will save money.	I will save Rs. 2,000 each month by cutting down on eating out and partying.
Realistic	Your goals need to be based on resources and tasks that you can reasonably accomplish.	If I save money I will be rich.	If I save regularly, need not borrow more money, I can pay off my debts by next year and will have enough savings till I begin to earn.
Time-bound	Goals with timelines allow you to track your progress and encourage you to keep going until you reach your goal	I will save money for my vehicle	I will save Rs.10000 a year for the next 2 years for my vehicle.

# Building a Financial Plan



A financial plan is a detailed roadmap that outlines an individual's or organization's financial goals and the strategies to achieve them. It encompasses budgeting, saving, investing, and risk management, addressing both short-term and long-term objectives. By providing a clear path, it ensures financial stability and growth. Regular reviews and adjustments are essential to adapt to changing circumstances and goals.

## 8 Steps to Make a Financial Plan



1 Formulate Goals



2 Set Budgets



3 Save for Retirement



4 Make an Estate Plan



5 Manage Debts



6 Prepare for Emergencies



7 Plan for Taxes



8 Invest for the Long Term

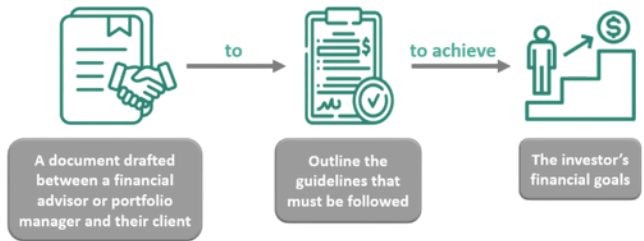
"Financial planning is essential. It provides direction and meaning to your financial decisions. It allows you to understand how each financial decision you make affects other areas of your finances and to consider the short and long-term effects on your life goals."

# Preparing Investment Policy Statement

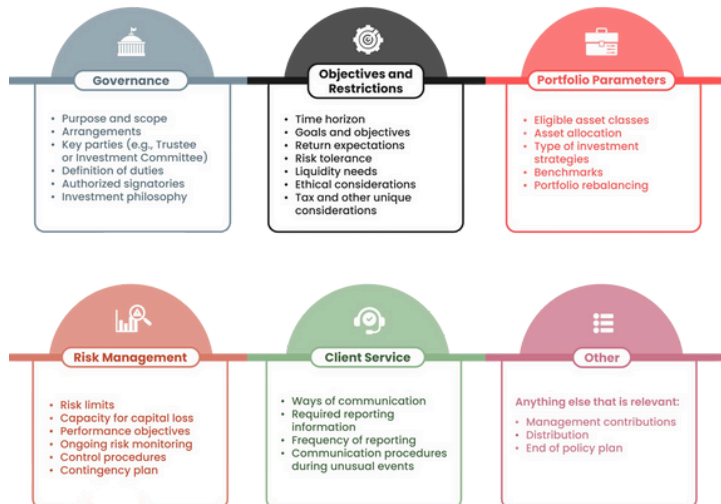


An Investment Policy Statement (IPS) outlines an investor's goals and strategies for their portfolio, detailing objectives, risk tolerance, time horizon, and asset allocation. It guides investment decisions to ensure they align with financial goals. Regular reviews and updates are essential to adapt to changing circumstances and market conditions.

## Investment Policy Statement



## Components of an Investment Policy Statement



# Understanding Risk Suitability



Low (Level 1)

Willing to accept a **minimal** level of risk

You are looking to preserve capital as main priority. You are fine with **minimal or low returns**.



Low (Level 2)

Willing to accept a **low** level of risk

You are looking to achieve **some potential returns** over the medium to long term under normal market conditions.



Medium (Level 3)

Willing to accept a **moderate** level of risk

You are looking to achieve **high potential returns** over the medium to long term under normal market conditions.



Medium (Level 4)

Willing to accept a **high** level of risk

You are looking to achieve **much higher potential returns** over the medium to long term under normal market conditions.



High (Level 5)

Willing to accept a **significant** level of risk

You are looking to achieve **maximum potential returns**. However, you are prepared to lose a significant part or all of your capital and are able to make good any losses that exceed your main investment amount (e.g. from investment loans).

"Risk comes from not knowing what you're doing." — Warren Buffett

# What are Asset Classes?

**Asset classes are different categories of investments in financial markets:**

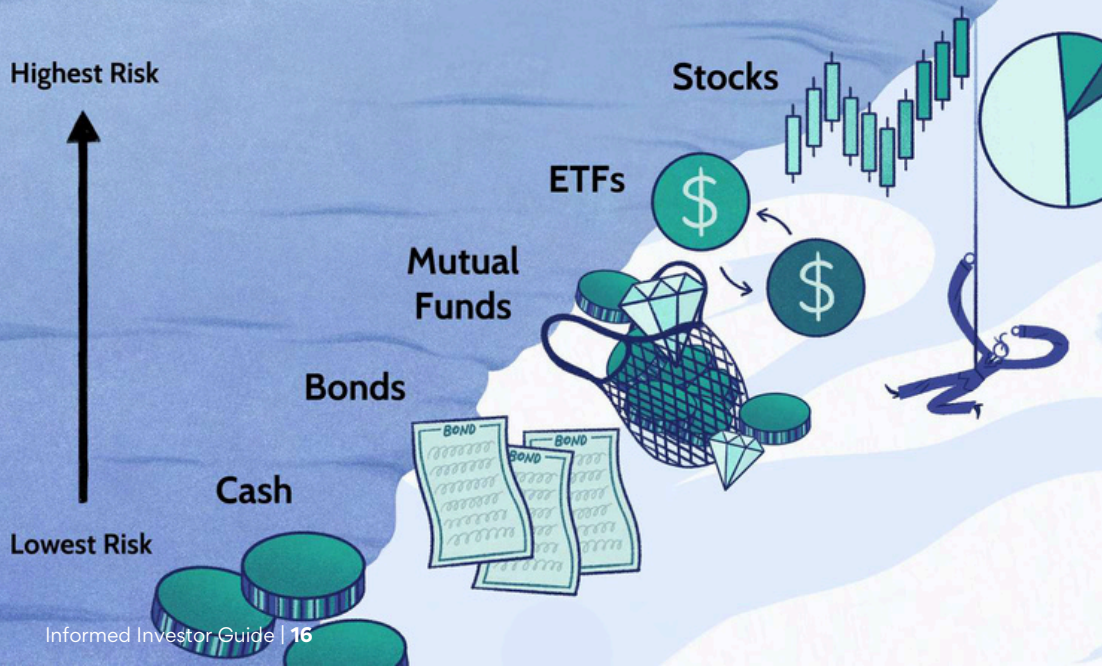
- **Equities (Stocks):** Ownership shares in companies.
- **Fixed Income (Bonds):** Debt securities that pay interest.
- **Cash Equivalents:** Short-term, low-risk investments.
- **Real Estate:** Property and land investments.
- **Commodities:** Physical goods like gold and oil.

Each class varies in risk and return, making diversification important for balanced portfolios.

## What is Asset Class Risk?

Asset class risk refers to the potential volatility or fluctuations in the value of investments within a specific category, such as stocks, bonds, or real estate. Each asset class carries its own level of risk based on market conditions, economic factors, and investor sentiment. Diversifying across different asset classes can help manage overall portfolio risk by balancing potential returns with varying levels of volatility.

### Investment Risk Ladder



# Asset Allocation



**“Don't put all your eggs in one basket”.**

It's an age old saying and applies to investments as well.

Asset Allocation is one of the important steps in one's investment strategy. It means to diversify investment portfolio among different asset categories such as:



**Equity** – Equity represents shares of ownership in a company. They have a potential for capital growth with high volatility.



**Debt** – Debt represents fixed Income/bonds which means loan given to a borrower for a specified time period in return of regular interest payments. They have a potential for stable growth with low volatility.



**Cash** – Cash is suitable for very short term needs such as parking money for emergency needs or for surplus fund where the investment is undecided.



**Gold** – Gold is a hedge against inflation and currency risk.

## Asset Allocation Strategies

There are two types of Asset Allocation strategies:

### 1 Strategic Asset Allocation

- Risk profiling** – to identify whether you are a conservative investor or an aggressive investor.
- Time frame** - to identify how much time is there for each of your goals.
- Return requirement** – Return requirement is expected returns, based on which calculations are made for desired corpus.

One of the simple examples of Strategic Asset Allocation is **Age based asset allocation**. 100 minus your age is your equity allocation, as you grow old your equity allocation will decrease and debt allocation will increase.

### 2 Tactical Asset Allocation

Tactical asset allocation is view based and decision is made based on the behaviour of the market.

If you believe that market will move up, you will increase your allocation towards equity or if you believe the interest rate are going to fall, you will increase your allocation towards GILT funds (which is part of Debt).

# Why Asset Allocation? Winners Rotate



No single asset classes has consistently delivered highest return year after year and different asset classes perform differently under different market cycles. Winner of one year may become loser in the following year and vice-a-versa.

The table below shows importance of diversifying within the asset classes while creating the portfolio. Schemes should be selected in a way that all schemes should not go up or fall together thereby reducing overall risk of portfolio.

The table below shows how various indices have performed year-on-year basis:

FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
NIFTY 100 TRI 13.5%	NIFTY Smallcap 250 TRI 31.3%	Gold 24.2%	NIFTY Smallcap 250 TRI 141.4%	Gold 28.1%	Gold 32.0%	NIFTY 10 yr Benchmark G-Sec 11.4%	NIFTY Smallcap 250 TRI 21.7%	NIFTY Smallcap 250 TRI 64.4%	Gold 10.3%	NIFTY Smallcap 250 TRI 40.6%	NIFTY Midcap 150 TRI 16.7%	NIFTY 100 TRI 14.0%	Gold 35.6%	NIFTY Smallcap 250 TRI 118.7%	NIFTY Smallcap 250 TRI 37.0%	Gold 10.6%
NIFTY Smallcap 250 TRI 11.8%	Gold 30.2%	NIFTY 10 yr Benchmark G-Sec 10.5%	NIFTY Midcap 150 TRI 135.8%	NIFTY Smallcap 250 TRI 11.4%	NIFTY 10 yr Benchmark G-Sec 3.4%	NIFTY 100 TRI 8.8%	NIFTY 100 TRI 19.6%	NIFTY Midcap 150 TRI 61.6%	NIFTY 10 yr Benchmark G-Sec 7.8%	NIFTY Midcap 150 TRI 37.2%	NIFTY Large Midcap 250 TRI 14.6%	NIFTY Large Midcap 250 TRI 6.5%	NIFTY 10 yr Benchmark G-Sec 14.3%	NIFTY Midcap 150 TRI 101.6%	NIFTY Midcap 150 TRI 25.0%	NIFTY Midcap 150 TRI 2.8%
Gold 10.9%	NIFTY 100 TRI 23.9%	NIFTY 100 TRI -36.6%	NIFTY Large Midcap 250 TRI 107.6%	NIFTY Midcap 150 TRI 7.1%	NIFTY Midcap 150 TRI -4.6%	NIFTY Large Midcap 250 TRI 6.5%	NIFTY Large Midcap 250 TRI 18.6%	NIFTY Large Midcap 250 TRI 45.9%	NIFTY Midcap 150 TRI -1.7%	NIFTY Large Midcap 250 TRI 29.9%	NIFTY Smallcap 250 TRI 12.9%	NIFTY 10 yr Benchmark G-Sec 6.1%	NIFTY 100 TRI -24.9%	NIFTY Large Midcap 250 TRI 85.3%	NIFTY Large Midcap 250 TRI 22.9%	NIFTY 10 yr Benchmark G-Sec 1.8%
NIFTY Large Midcap 250 TRI 5.6%	NIFTY Large Midcap 250 TRI 23.2%	NIFTY Large Midcap 250 TRI -42.9%	NIFTY 100 TRI 84.9%	NIFTY 10 yr Benchmark G-Sec 4.9%	NIFTY Large Midcap 250 TRI -6.3%	NIFTY Midcap 150 TRI 4.5%	NIFTY Midcap 150 TRI 16.7%	NIFTY 100 TRI 31.1%	NIFTY Large Midcap 250 TRI -4.3%	NIFTY 100 TRI 22.6%	NIFTY 100 TRI 12.2%	Gold 3.3%	NIFTY Large Midcap 250 TRI -27.5%	NIFTY 100 TRI 71.2%	NIFTY 100 TRI 20.6%	NIFTY Large Midcap 250 TRI 0.6%
NIFTY 10 yr Benchmark G-Sec 5.3%	NIFTY Midcap 150 TRI 21.5%	NIFTY Midcap 150 TRI -48.5%	Gold 7.7%	NIFTY Large Midcap 250 TRI 4.7%	NIFTY 100 TRI -7.8%	Gold 2.6%	NIFTY 10 yr Benchmark G-Sec -1.1%	NIFTY 10 yr Benchmark G-Sec 15.1%	NIFTY Smallcap 250 TRI -5.9%	NIFTY 10 yr Benchmark G-Sec 11.9%	Gold 7.5%	NIFTY Midcap 150 TRI -0.6%	NIFTY Midcap 150 TRI -30.1%	NIFTY 10 yr Benchmark G-Sec 3.3%	Gold 19.0%	NIFTY 100 TRI -1.6%
NIFTY Midcap 150 TRI -1.1%	NIFTY 10 yr Benchmark G-Sec 8.4%	NIFTY Smallcap 250 TRI -54 %	NIFTY 10 yr Benchmark G-Sec 0.3%	NIFTY 100 TRI 0.9%	NIFTY Smallcap 250 TRI -8.6%	NIFTY Smallcap 250 TRI -5.3%	Gold -11.0%	Gold -3.9%	NIFTY 100 TRI -6.9%	Gold -1.3%	NIFTY 10 yr Benchmark G-Sec 0.0%	NIFTY Smallcap 250 TRI -12.4%	NIFTY Smallcap 250 TRI -40.2%	Gold 1.6%	NIFTY 10 yr Benchmark G-Sec 1.0%	NIFTY Smallcap 250 TRI -6.0%

Asset Class	Equity		Equity		Debt		Gold	
	NIFTY 100 TRI	NIFTY Large Midcap 250 TRI	NIFTY Midcap 150 TRI	NIFTY Smallcap 250 TRI	NIFTY 10 yr Benchmark G-Sec	Gold		

# Common Investment Mistakes



Investment mistakes are common errors that investors make, such as failing to diversify their portfolio, reacting emotionally to market fluctuations, or not conducting proper research before investing. These missteps can lead to significant financial losses and missed opportunities for growth. Avoiding these mistakes is crucial for achieving long-term investment success.

## Types of Investing Errors

### • **Not having clear investment goals:**

If you don't have a clear investment goal, you might end up off track. Many people chase trendy investments or short-term gains, but it's better to build a portfolio that aligns with your long-term objectives. Focus on a plan that helps you achieve your life's goals.

### • **Buying high and selling low:**

Investors should buy low and sell high, but fear and greed often make them do the opposite. Chasing short-term gains or fearing immediate loss leads to financial loss. This results in missing out on long-term investment success.

### • **Trading too much and too often :**

Patience is key in investing, as it often takes time to see benefits. Constantly changing your strategy can increase fees and risks. Instead of frequently trading, use that impulse to learn more about your current investments.

## • **Failing to diversify enough :**

Diversification is crucial for managing risk and returns across different market conditions. Avoid putting all investments into one security or sector to prevent significant losses during market shifts. Finding a balanced portfolio with professional advice is key for long-term success.

## • **Reacting to the media :**

Don't get caught up in 24-hour news updates aimed at creating impulsive decisions; focus on extracting valuable insights from the noise. Successful investors gather data from diverse sources and conduct thorough research independently or through investment experts. Relying solely on news for investment decisions is risky because market prices typically incorporate public information by the time it's widely reported.

## • **Chasing yield :**

A high-yielding asset is a very seductive thing. Why wouldn't you try to maximize the amount of money you get back? Simple: Past returns are no indication of future performance and the highest yields carry the highest risks! Focus on the whole picture; don't get distracted while disregarding risk management.

## • **Forgetting about inflation:**

Most investors focus on nominal returns instead of real returns. This focus means looking at and comparing performance after fees and inflation. Even if the economy is not in a massive inflationary period, some costs will still rise! It is important to remember that what you can buy with the assets you have is in many ways more important than their value in dollar terms. Develop a discipline of focusing on what is really important: your returns after adjusting for rising costs.

## • **Working with the wrong adviser:**

An investment adviser should be your partner in achieving your investment goals. The ideal financial professional and financial service provider not only has the ability to solve your problems but shares a similar philosophy about investing and even life in general. The benefits of taking extra time to find the right adviser far out weigh the comfort of making a quick decision.

# Investing Biases



Investing biases are subconscious tendencies that affect how investors perceive and act on information, potentially leading to distorted decision-making. These biases can stem from emotions, cognitive shortcuts, or social influences, influencing choices away from rationality and objective analysis. Recognizing and mitigating these biases is essential for making sound investment decisions.

## Types of Investing Biases

### •Cognitive Bias:

Cognitive bias refers to systematic patterns of deviation from rationality in judgment, influencing decision-making based on subjective factors rather than objective analysis

**i) Conservatism bias:** Investors fail to update their analyses with new information promptly, sticking to old beliefs. This can lead to underestimating the impact of new data and maintaining outdated strategies.

**ii) Confirmation bias:** An investor only reads news articles that praise a particular cryptocurrency they've invested in, dismissing any articles that warn about its volatility or regulatory risks.

**iii) Hindsight bias:** After a stock market crash, an investor claims they "knew it would happen," even though they didn't make any changes to their investments before the crash or were certain of the market crash.

**iv) Availability bias:** An investor chooses to invest in a company they've seen advertised frequently on television, assuming it's a safer bet than less promoted alternatives without conducting thorough research.

**v) Anchoring bias:** An investor buys a stock at Rs. 500 per share. Despite new information suggesting the stock's value has decreased, they refuse to sell it below Rs. 500 because they are anchored to their original purchase price, ignoring current market conditions.

## •Emotional Bias:

Emotional bias refers to making investment decisions based on feelings such as fear or greed rather than objective analysis, potentially leading to irrational choices and missed opportunities.

**i) Loss Aversion:** Investors strongly avoid losses more than they seek equivalent gains, often holding onto losing investments hoping they will recover, which can lead to missed opportunities and reduced returns.

**ii) Endowment Effect:** Investors place higher value on assets they already own simply because they own them, which can lead to overpricing when selling and reluctance to sell even when it's financially prudent.

**iii) Self-control Bias:** This bias leads to overspending and under-saving, neglecting to build wealth and prepare adequately for the future due to immediate gratification.

**iv) Status Quo Bias:** Investors resist making necessary changes to their portfolio or asset allocation, even when conditions warrant adjustments, potentially missing out on better opportunities or holding onto underperforming investments.

**v) Overconfidence Bias:** Investors believe they possess superior abilities to analyze and predict market movements, leading to excessive trading, lack of diversification, and unrealistic expectations of returns.

**vi) Regret Aversion:** Investors make decisions based on avoiding potential regret rather than maximizing returns, often choosing overly conservative investments or following the crowd, which can result in suboptimal performance.

# Investing vs Trading



## Investing

Investing involves purchasing assets with the goal of long-term growth and income generation. By holding onto a diversified portfolio that includes stocks, bonds, and mutual funds, investors aim to build wealth over time based on strong fundamental growth potential in their chosen investments.

## Types of Investing

- i) Active Investment:** This approach involves individuals who actively buy and sell assets in an attempt to outperform the market. They conduct extensive research and analysis, aiming to capitalize on short-term opportunities. Active investing typically incurs higher fees due to frequent transactions.
- ii) Passive Investment:** Passive investors build portfolios designed to replicate the performance of a specific market index or asset class. They minimize trading activity, opting instead to hold investments over the long term. Passive strategies often have lower costs since they do not involve frequent buying and selling.
- iii) Value Investing:** Investors seek undervalued stocks of stable companies with strong fundamentals and historical performance, aiming for long-term stability and steady returns.
- iv) Growth Investing:** Investors target stocks of companies with high growth potential, focusing on rapid expansion and increasing earnings rather than immediate profitability, accepting higher risk for potential higher returns.

# Trading

Trading involves buying and selling financial assets like stocks, commodities, or currencies with the goal of profiting from short-term price fluctuations. Traders often use technical analysis, market trends, and news events to make quick buying and selling decisions, aiming to capitalize on market volatility and generate immediate gains. Unlike investing, trading typically involves higher frequency of transactions and shorter holding periods, ranging from minutes to days.

## Trading vs Invest

### DAY TRADING



- Short-term holding
- More volatile
- Less diversified

VS.

### INVESTING

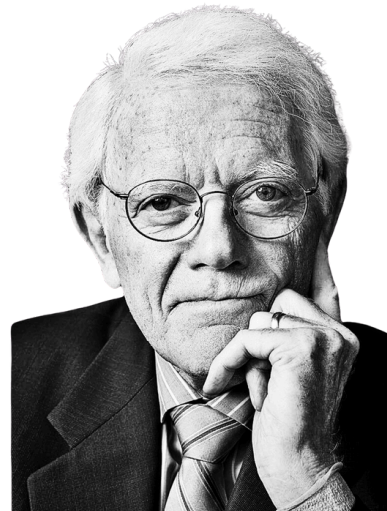


- Long-term holding
- More stable
- More diversified

You are much more likely to turn a profit over a long time horizon with a diversified portfolio of investments as opposed to day trading.

**Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.**

- Peter Lynch



# Relationship With Money



Our relationship with money is complex and deeply personal, influencing our attitudes, behaviors, and decisions. It reflects our values, priorities, and aspirations, impacting not only our financial well-being but also our emotional and mental health. Understanding and managing this relationship involves recognizing its psychological aspects, setting clear financial goals, practicing discipline in spending and saving, and seeking balance between enjoying today and planning for tomorrow. It's about fostering a healthy mindset towards money that aligns with our overall life objectives and values.

## The Seven Money Personality Types

### THE COMPULSIVE SAVER

- Saves money endlessly
- Views money as a source of security
- Frugal and financially responsible
- Bargain shopping expert
- Fear of irrational spending

### THE COMPULSIVE SPENDER

- Often makes unnecessary purchases
- Spends when in emotional distress, or for immediate gratification
- Experiences buyer's remorse after big splurges

### THE COMPULSIVE MONEYMAKER

- Believes life is better when you earn more
- Top priority is growing wealth, making more money
- Craves recognition for their financial success

### THE INDIFFERENT-TO-MONEY

- Tends to be financially well-off
- Rarely thinks about money
- Feels money should not influence important decisions in life

### THE SAVER-SPLURGER

- Shares combination of traits between Savers and Spenders
- Is smart with money for a certain amount of time, but may then give into spending impulses out of nowhere

### THE GAMBLER

- Shares combination of traits between Spenders and Moneymakers
- Takes big risks with money
- Happy with financial wins, but deeply depressed over losses

### THE WORRIER

- Constantly worried about losing money
- Lacks confidence in ability to achieve financial freedom
- Always in preparation mode

# Financial Myths



## MYTHS



**1** BUYING A HOME IS BETTER THAN RENTING



**2** YOU HAVE TO BE RICH TO INVEST



**3** CARRY A SMALL CREDIT CARD BALANCE



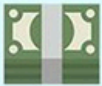
**4** I DON'T EARN ENOUGH TO SAVE



**5** INVEST IN GOLD



**6** MY PARTNER MANAGES OUR MONEY SO I DON'T NEED TO WORRY ABOUT IT



**7** CASH IS KING



**8** I DON'T EARN ENOUGH TO SAVE



**9** TWO INCOMES ARE BETTER THAN ONE



**10** I DON'T NEED AN EMERGENCY FUND

“ You only have to do a very few things right in your life so long as you don't do too many things wrong. ”

- Warren Buffet





# Mutual Funds



A mutual fund is a financial product that enables you to invest in various asset classes such as equity, debt, and gold. By offering diversification and professional management, it helps to reduce your risk and enhance your returns.

	Asset Classes		
	Gold and Silver	Debt	Equity
<b>Routes of investment</b>	Physical Gold/Silver and Gold Bonds	Fixed Deposits/ Corporate Bonds	Direct Equity
<b>Drawbacks</b>	<p><b>Physical Gold / Silver</b> - Safety and purity</p> <p><b>Gold Bonds</b> - Buying limits, lock-in of 5 years, low liquidity</p>	<p>Medium to Low liquidity</p> <p>Penalty for premature withdrawal</p>	<p>Requires time and expertise</p> <p>Relatively riskier</p>

## Here's how mutual fund route can help overcome the above drawbacks

Mutual Fund Route	Gold Exchange Traded Fund (ETF) & Gold Fund, Silver Exchange Traded Fund (ETF) & Silver Fund	Debt Mutual Fund	Equity Mutual Fund
<b>Benefits of investing in mutual funds</b>	<p>Buying limits - Min.1 unit through stock exchange and no upper limit</p> <p>High liquidity</p> <p>No lock-in</p>	<p>Different schemes for different investment horizon</p> <p>High liquidity</p> <p>Professional Management</p>	<p>Professional management</p> <p>Diversification/robust risk management</p> <p>High liquidity</p>

**It is normally seen that entrepreneurs create wealth for themselves and their shareholders by running good, growing businesses.**

How can an individual learn and benefit from these business stalwarts?

- **Either by starting a business (which may not be as easy to scale up)**
- **Or, by investing in an established growing business**

## Why Invest in EQUITIES?



### **Long Term Wealth Creation**

Investing in stock markets could help you create wealth over the long term



### **Become a Part-Owner**

When you buy a stock of a company, you become a part owner and could make money as the company's profit increases



### **Real Returns**

Investing in equities could help you beat inflation as it generates positive real returns over the long term

E.g. Let us assume the rate of return on an investment is 12% and inflation is 4%. The real return in this case is 8% (12% - 4%).

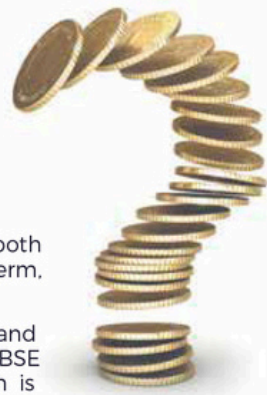


Philip Fisher said that, **The stock market is filled with individuals who know the price of everything, but the value of nothing.**



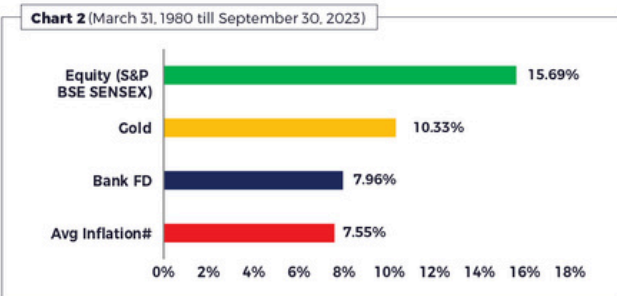
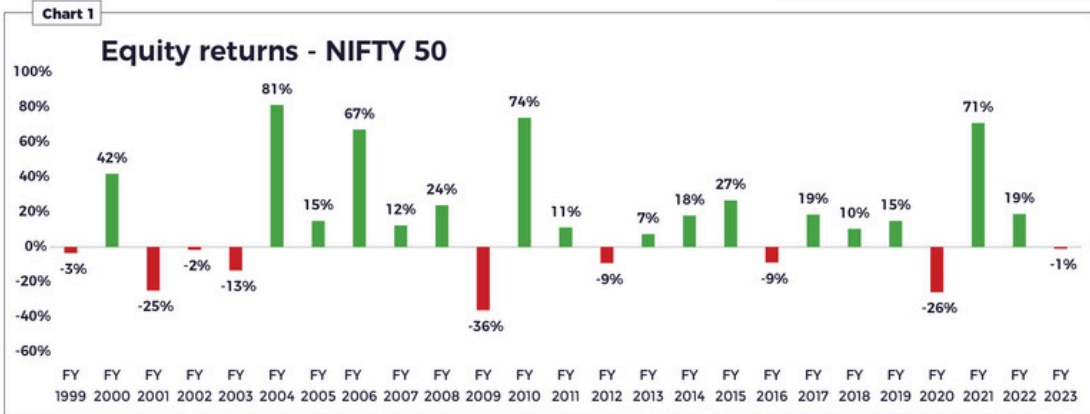
# EQUITIES -

## A long term asset which aimed at wealth creation



Equity markets do not move up in a linear fashion. Various news and events, both domestic and global, drive the market in the short run. However, in the long term, returns could be in line with the growth of the underlying economy.

As shown in Chart 1 below, markets have given positive returns in some years and negative in others. However, if you observe Chart 2, in the long term, S&P BSE SENSEX has delivered 15.69% CAGR between Mar 80 and Sep 23; which is approximately 8% higher than the average inflation rate during that period.



Despite the risk and volatility in the short term, over the long term, equity as an asset class has **outperformed** others. It has beaten inflation by the highest margin.

Data source: World Bank

**“The single most powerful asset we all have is our mind. If it is trained well, it can create enormous wealth.”– Robert Kiyosaki**

Source: Bloomberg, RBI Handbook of statistics on Indian Economy, World Gold Council, SBI  
 #Average Inflation is shown for comparison with returns from various asset classes. \*Data is of CAGR returns of various asset classes (Equity, Gold, Bank FD) for the period March 31, 1980 till Sept 30, 2023. Average Inflation - Data as on September 30, 2023, Provisional Data for September 30, 2023. Equities are a volatile asset class. However, volatility in returns reduces as holding period increases. Above asset classes are not strictly comparable. Above chart is for illustration purposes only. **Past performance may or may not be sustained in future and is not a guarantee of any future returns.**  
 \*For Distributors only”



# Understanding Debt



Debt investing involves lending money to an entity, such as a government or corporation, in exchange for regular interest payments and the return of the principal amount at maturity. Common forms of debt investments include bonds, treasury bills, and certificates of deposit. Debt investing typically offers lower risk compared to equity investing, with more predictable returns. However, the potential for returns is generally lower compared to investing in stocks.

## Debt Funds

can be used for a variety of short and medium term financial goals that you want to achieve or must achieve without fail.

Parking surplus cash for time being that can be a suitable alternative to parking money in savings account (0-3 months)

Goals you would like to achieve in the near future (1-3 years)

DEBT FUNDS

Goals for the near term that you know will surely arise (3-12 months)

Medium-Term Goals that you can't afford to delay. (3-4 years)

"Investing in debt mutual funds can provide a steady income stream and lower volatility compared to equities, but always remember to match your investment with your risk tolerance and time horizon."

— Warren Buffett

# Types of Debt Mutual Funds





# Fixed Deposits (FD)



Fixed Deposit Investment involves depositing a specific amount of money with a bank or financial institution for a predetermined period, ranging from a few months to several years. During this period, the investment earns a fixed interest rate, providing predictable and stable returns. It is a low-risk investment option, as the principal amount is secure and is returned at maturity along with the accrued interest. Fixed deposits are popular for their safety and guaranteed returns, making them suitable for conservative investors.



# Gold Investments



Gold investing involves purchasing physical gold or gold ETFs to diversify a portfolio and protect against inflation and economic instability. It is considered a safe-haven asset that retains value over time. Investors choose gold for its stability and potential for long-term growth.

## How to Invest in Gold In India



**JEWELLERY  
BUYING**



**GOLD  
COINS**



**GOLD  
BARS**



**GOLD  
ETF**



**GOLD FUND OF  
FUNDS**

# Alternative Investment Fund (AIF)



Alternative Investment Funds (AIFs) are investment vehicles that pool money from investors to invest in assets beyond traditional stocks, bonds, and cash. These assets can include private equity, hedge funds, real estate, commodities, and derivatives. AIFs offer diversification and potential for higher returns but typically involve higher risks and are less regulated compared to traditional investments.

## Types of AIFs

### CATEGORY 1

Investment in Startups, SMEs and projects which are socially and economically viable



- ▶ Venture Capital Fund
- ▶ Infrastructure Fund
- ▶ Angel Fund
- ▶ Social Venture Fund

### CATEGORY 2

Investment in Equity and Debt Securities



- ▶ Private Equity (PE) Fund
- ▶ Debt Fund
- ▶ Fund of Funds

### CATEGORY 3

Investment aimed at short-term returns achieved by employing complex trading strategies



- ▶ Hedge Fund
- ▶ Private Investment in Public Equity Fund (PIPE)



# Portfolio Management Services (PMS)

Portfolio Management Services (PMS) involve professional management of an individual's or institution's investment portfolio by a financial expert. These services offer personalized investment strategies based on the client's financial goals, risk tolerance, and time horizon. PMS aims to optimize returns while managing risks through active management and diversification.



Portfolio diversification for non-systematic risks in equity market.



Active portfolio risk management.



Experienced and robust portfolio management team.



Event-based interaction with fund management team.



Servicing from large network of branches/associates across India.



Efficient and personalized client servicing.

## Types of PMS

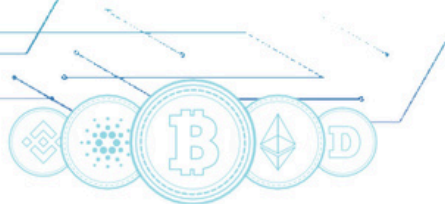
Active

Passive

Discretionary

Non  
Discretionary

# A look at the emerging Investment Fads



In the past few months following the pandemic investors have been introduced to a wide range of popular new-age investment instruments, often categorized under the umbrella of Virtual Digital Assets (VDAs). Allured by the stories of life changing gains, the uninformed investor has jumped right onto this hype-driven bandwagon. With minimum barrier to entry and having little to no regulation (or regulatory recourse in the event of a major loss) – these VDA's have time and again proven to be an investment where majority of investors may lose their hard earned money. While some investors find it hard to contend with the hyper volatile nature of VDAs, others due to lack of awareness may become vulnerable to elaborate scams or sham ICOs (initial coin offerings).

## Breaking down these Investment Fads

Investment Fad	Volatility	Regulatory	Principle of Valuation
<p><b>Cryptocurrency</b></p> <p>Crypto assets can be mined or created by anyone, by solving complex problems. The coins are stored on open digital ledgers that are maintained by the public. It can be bought or sold on online market places (exchanges).</p>	<p>Highly Volatile with unpredictable price movement.</p>	<p>Not regulated but taxed.</p> <p>All profits from cryptocurrency trading in the country is subject to a 30 percent tax. Furthermore, no deductions, set-offs, or carryovers are permitted.</p>	<p>Varies. For instance Most Cryptos operate on Speculation (hype) and Scarcity Value, whereas Stablecoins; another type of cryptocurrency have their value pegged to a real world fiat currency or commodity. Eg. There is a cryptocurrency that is designed in such a way that it's value is always 1 USD.</p>
<p><b>NFTs (Non-Fungible Tokens)</b></p> <p>Are one of a kind tokens (digital art, music etc.) that cannot be replicated. Most NFTs are usually located on the ETH or SOL blockchain, and can store extra information like proof/chain of ownership.</p>			<p>NFTs like any other speculative asset are assessed based on perceived value. Some NFTs are more rare and 'collectible' than others – often value is driven up by bidders on NFT marketplaces.</p>
<p><b>Digital Gold</b></p> <p>Is bought online and it is stored in insured vaults by the seller on behalf of the buyer. One can also choose to redeem it as physical gold in the form of jewellery, coins and bullion.</p> <p>There's no upper limit on purchase of digital gold. However, the maximum limit to buy gold in a single day is INR 2 lakh, with a one-time levy of 3% GST.</p>	<p>Usually stable, reflective of actual gold price movement.</p>	<p>Lack of regulatory clarity.</p> <p>NSE and BSE have asked brokers to desist from offering digital gold on their platforms. This was followed up in October 2021 with SEBI barring RIAs from offering digital gold as an investment option to investors.</p>	<p>Traded on the exchange, hence value corresponds to last closing price.</p>

## Conclusion

Even though blockchain technology at large does have scope of utility in the future. It is important to understand that we are still at a very nascent stage of this innovation. Without any regulatory clarity or oversight – the future of these VDAs remains uncertain and it may be advisable for investors to steer clear of such erratic investments.

# Different Modes of Investments



## What is SIP, STP and SWP

**Systematic Investment Plan (SIP):** A method of investing where a fixed amount is regularly invested in mutual funds, promoting disciplined savings and taking advantage of rupee cost averaging.

**Systematic Transfer Plan (STP):** Involves transferring a fixed amount periodically from one mutual fund scheme to another, allowing investors to manage risk and optimize returns based on market conditions.

**Systematic Withdrawal Plan (SWP):** Allows investors to withdraw a fixed amount regularly from their mutual fund investments, providing a steady income stream while potentially benefiting from the investment's growth.

## Comparison between SIP, STP and SWP

Parameters	Systematic Investment Plan	Systematic Transfer Plan	Systematic Withdrawal plan
Investment / withdrawal plan	Money invested is at regular intervals in a mutual fund scheme	Money is transferred from one mutual fund to other mutual fund scheme	Money is withdrawn at regular intervals from a mutual fund scheme
Appropriate investors	SIP is chosen by investors who wish to attain a particular objective by Mutual Fund investment	STP is chosen by investors who have lump sum money and wish to invest in mutual funds but are cautious of timing the market	Chosen by individuals who want a regular source of money especially retirees
Taxes	Tax is not applicable as the money is invested in a scheme	Tax is applicable as the money transferred is considered as redemption	Triggers taxes as each withdrawal is considered to be redemption
Benefits	Rupee cost averaging, the power of compounding, and disciplined investment approach	Consistent returns, balancing risk and returns, averaging cost	There is a regular flow income that avoids market fluctuations

# Taxation of Financial Products



Think of your investments as buckets – stocks, bonds, real estate, each with its own tax label. Riskier buckets, like stocks, often come with tax breaks on profits (capital gains). Safer buckets, like bonds, might have less exciting tax perks. Taxes can get tricky, so consulting a financial advisor for your situation is always smart.

## Asset classes and tax structure

Asset	Holding period for LTCG	Tax rate
Listed shares in India/Equity funds	>12 months	LTCG rate of <b>10%</b> over ₹1 lakh of capital gain; STCG rate of <b>15%</b>
Debt mutual funds	Always short term; taxed at slab rate	
FD	NA	At slab rates
REIT/Invit units subject to STT	>12 months	At slab rates; based on the tax regime followed by the Invit/Reit
Zero coupon bonds	>12 months	LTCG taxation is lower of <b>10%</b> without index or <b>20%</b> with indexation; STCG at slab rate
Other listed securities (other than units)	>36 months	At slab rates
SGB	Until maturity	<b>Exempt</b> if subscribed in primary market and held till maturity

LTCG: long-term capital gain; STCG: short-term capital gain

# PPF vs ELSS



**PPF (Public Provident Fund):** A long-term savings scheme by the Indian government offering tax benefits, fixed interest rates, and capital protection, suitable for conservative investors aiming for retirement planning.

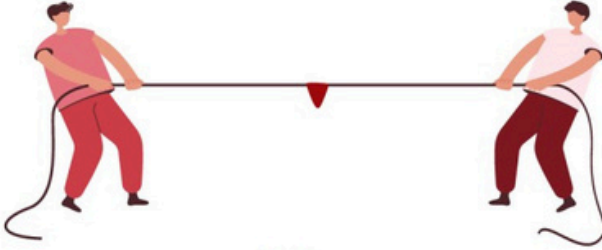
**ELSS (Equity Linked Savings Scheme):** A type of mutual fund that invests primarily in equity markets, offering tax benefits under Section 80C of the Income Tax Act, ideal for investors seeking potential capital appreciation over the long term with some risk.

## Comparison between PPF and ELSS

Parameters for Comparison	ELSS	PPF
What Are These?	Diversified Equity Mutual Funds	Long-term Saving Instrument availing the old-age security to the self-employed and workers of unorganized sector
Eligibility	Resident Individuals, HUFs & NRIs	Only Resident Individuals & HUFs
Max Investment	No Limit	Rs.1,50,000(Max 12 installments yearly)
Rate of Return	11% to 14% p.a.	8% p.a.
Lock in Period	3 years	7 years
Taxability of Income	LTCG is taxable @ 10% without indexation benefit	It comes under Exempt-Exempt-Exempt category. Interest and maturity amount is exempt from tax.
Other Benefits	No other benefits apart for lock in period	One can avail loan from PPF from 3 <sup>rd</sup> year to 6 <sup>th</sup> year of investment
Risk Associated	ELSS is riskier due to associated Market Risk	Less risky than ELSS, Guaranteed returns



# Active Funds VS Passive Funds



## Active Funds VS Passive Funds

Active Fund	Passive Funds
<p>Fund manager decides which stocks will go in and out of the fund by analysing the larger markets, economies and the individual performance of the stock.</p>	<p>In an ETF(Exchange Traded Funds) Fund Mangers tracks the movement of an index. The index performances are translated into ETF returns.</p>
<p><b>Example:</b></p> <ul style="list-style-type: none"><li>● Equity Mutual Funds, ● Debt Mutual Funds, ● Hybrid Funds or ● Fund of Funds</li></ul>	<p><b>Example:</b></p> <ul style="list-style-type: none"><li>● (Exchange Traded Funds)</li></ul>

### Pros & Cons of Active Funds & Passive Funds

#### Pros

Fund Manager does the Research and Analysis for you

Funds tends to outperform a broad index market

Lower Operational Costs

Low Expense Ratios

Lesser Capital Gain Contribution



#### Cons

Higher Expense Ratios

Increased Capital Gains that are Taxable

Lack of Flexibility

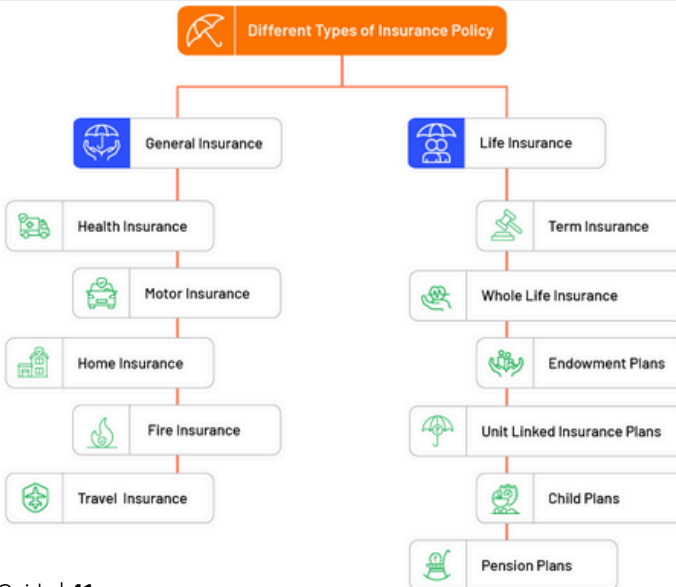
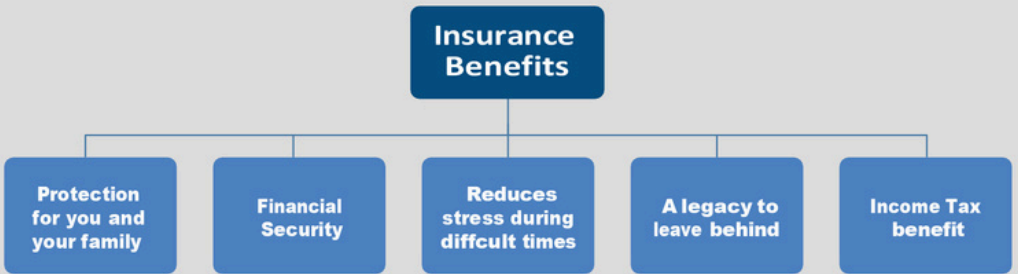
Forced Selling/ Forced Buying



# Insurance



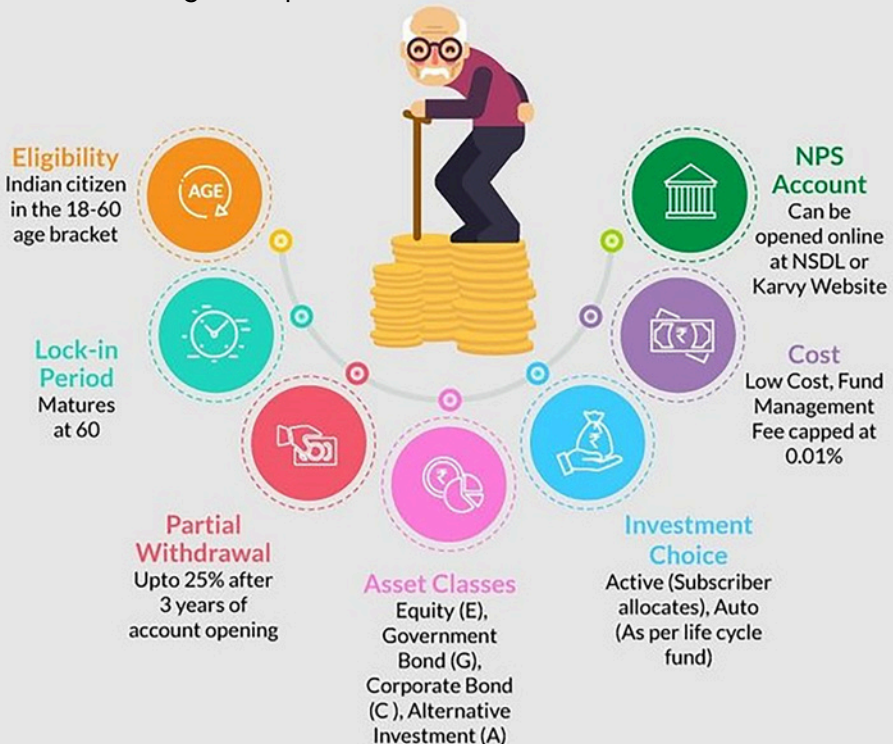
## Need for an Insurance..



# National Pension Scheme (NPS)



Investing involves purchasing assets with the goal of long-term growth and income generation. By holding onto a diversified portfolio that includes stocks, bonds, and mutual funds, investors aim to build wealth over time based on strong fundamental growth potential in their chosen investments.



## Types of NPS Accounts

**Tier 1-** Premature withdrawal not allowed. Tax deduction benefits upto Rs. 2 lakh per annum.

**Tier 2-** Funds can be withdrawn any time but lock-in of 3 years for claiming tax benefits.



# Glossary Terms



**Fund Manager:** An employee of an asset management company such as mutual fund or life insurer, who manages investments of the scheme. He is usually part of a larger team of fund managers and research analysts.

**Application amount for fresh subscription:** This is the minimum investment amount for a new investor entering in a mutual fund scheme.

**Minimum Additional Amount:** This is the minimum investment amount for an existing investor in a mutual fund scheme.

**SIP:** Systematic Investment Plan (SIP) is an organized way of investing in Mutual Fund. It helps in building long term wealth through a disciplined approach of investing at pre-defined intervals ranging from daily, weekly, monthly and quarterly.

**NAV:** Net asset value or NAV is the total asset value per unit of the mutual fund after deducting all related and permissible expenses. The NAV is calculated at the end of every business day and it is the value at which investors enter or exit the mutual fund.

**Benchmark:** A group of securities, typically a market index, whose performance is used as a standard or benchmark to assess the performance of mutual funds and other investments. A few common benchmarks are the Nifty, Sensex, BSE 200, BSE 500, and 10-year Gsec.

**Exit load:** When an investor redeems mutual fund units, exit load is charged. At redemption, the exit load is subtracted from the current NAV. For instance if the NAV is Rs. 100 and the exit load is 1%, the investor will receive Rs. 99.

**Standard deviation:** Standard deviation is statistical measure of the range of an investment's performance. When a mutual fund has a high standard deviation, it means its range of performance is wide, implying greater volatility.

**Sharpe Ratio:** The Sharpe Ratio is measure of risk-adjusted returns. It is calculated using standard deviation and excess return to determine reward per unit of risk.

**Beta:** Beta is a measure of an investment's volatility vis-à-vis the market. A beta of greater than 1 implies that the security's price will be more volatile than the market. Beta of less than 1 means that the security will be less volatile than the market.

**AUM:** Assets under management or AUM refers to the recent cumulative market value of investments managed by Mutual fund or any investment firm.

**Holdings:** The holdings or the portfolio is a mutual fund's latest or updated reported statement of investments/securities. These are usually displayed in terms of percentage to net assets or the rupee value or both. The objective is to give investors an idea of where their money is being invested by the fund manager.

**Nature of Scheme:** The investment objective and underlying investments determine the nature of the mutual fund scheme. For instance, a mutual fund that aims at generating capital appreciation by investing in stock markets is an equity fund or growth fund. Likewise, a mutual fund that aims at capital preservation by investing in debt markets is a debt fund or income fund. Each of these categories may have sub-categories.

**Rating Profile:** Mutual funds invest in securities after evaluating their credit worthiness as disclosed by the ratings. A depiction of the mutual fund in various investments based on their rating becomes the rating profile of the fund. Typically, this is a feature of debt funds.

**Macaulay Duration:** Macaulay Duration is a measure of how long it takes for the price of a bond to be repaid by its internal cash

flows. Macaulay Duration is used only for an instrument with fixed cash flows. Modified Duration as the name suggests, is a modified version of the Macaulay model that accounts for changing interest rates.

**Modified Duration:** Modified duration is the price sensitivity and the percentage change in price for a unit change in yield.

**Average Maturity:** A bond's maturity date indicates the specific future date on which an investor gets his principal back i.e. the borrowed amount is repaid in full. Average Maturity is the weighted average of all the current maturities of the debt securities held in the fund.

**Yield to Maturity:** The yield to maturity or the YTM is the rate of return anticipated on a bond if held until maturity. It is expressed as an annual rate. The YTM factors in the bond's current market price, par value, coupon interest rate and time to maturity

**IDCW:** Income Distribution cum Capital Withdrawal option or IDCW can be distributed out of investors' capital (Equalization Reserve), which is part of the sale price that represents realized gains.

**P/E Ratio:** The price-earnings ratio (P/E Ratio) is the relation between a company's share price and earnings per share (EPS). It denotes what the market is willing to pay for a company's profits.

**P/BV:** The price-to-book ratio compares a company's market value to its book value. The market value of a company is its share price multiplied by the number of outstanding shares.


**Dividend Yield:** The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price.

**Interest Rate Swap (IRS):** An interest rate swap is a forward contract in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates.

**Potential Risk Class (PRC) Matrix:** In reference to Para 17.5 of SEBI Master Circular SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/74 on Mutual Funds dated May 19, 2023, all debt schemes will be classified in terms of a Potential Risk Class matrix which consists of parameters based on maximum interest rate risk (measured by Macaulay Duration (MD) of the scheme) and maximum credit risk (measured by Credit Risk Value (CRV) of the scheme).

**R Squared:** It is a statistical measure of how closely the portfolio returns are correlated with its benchmark.

**Inception date:** Means the allotment date of the respective scheme.



The "Informed Investor Guide" by SubhShanti Wealth is your essential companion to achieving lasting financial happiness. Packed with expert advice and actionable insights, this guide equips you with the knowledge to navigate investments confidently, manage risks effectively, and align your financial goals with personal aspirations. Take charge of your financial future and invest in your happiness with this indispensable resource.



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